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REPORT FOR THE PRESIDENT

Subject: Panama Canal Treaty Negotiations

In the aftermath of the Security Council meeting in Panama last March, General Torrijos appears to have adopted a more conciliatory attitude. Past history suggests that this is likely to be transitory -- that he will be prepared to revert to confrontation tactics if his current line does not produce the results he seeks. The gap between our positions on the critical issues (Tab A) remains so wide that bridging it in the early future is not in prospect.

We could continue with the present strategy of formal negotiation on the theory that eventually, once we have made concessions on non-critical points and Torrijos is convinced he can do no better, he will decide that something for his people is better than nothing and sign a treaty. But the General believes himself to be the man for whom Panamanians have waited 70 years to restore their full sovereignty over the Canal Zone. While we pursued this protracted course Panamanian frustration would probably grow and could

SECRET

SECRET

2

result in a renewal of violence against the U.S. presence.

We could substantially improve our treaty offer on the theory that we might be able to provide Torrijos a minimum of what he thinks he needs and thereby be able to conclude a treaty quickly. But he might only be encouraged to believe he could extract even more from us. Some movement on the Panamanian side toward a more reasonable position would therefore seem advisable before we consider a significant change in our own position.

A strategy designed to produce such movement would take into account the fact that lack of progress in the negotiations is permitting Panama to marshal wide international sympathy for its charge that the U.S. is maintaining, by means of an overwhelming military presence, a colonial enclave on Panamanian soil. While continuing vigorous pursuit of our objectives through formal treaty negotiations, we could take a number of steps that would reduce our vulnerability to this charge without impairing our bargaining position or seriously affecting our ability to continue operating and defending the Canal. Such steps would also be responsive to

SECRET

SECRET

3

Torrijos' view that unilateral U.S. actions could improve the climate for negotiations and perhaps enable him to adopt a somewhat more forthcoming position. Many of these steps can be taken by the Executive Branch while others require congressional approval.

Measures that could be taken by the Executive alone are:

1. Accept explicitly that the Canal Zone is Panamanian territory which is under U.S. jurisdiction as stated in the 1903 Convention as amended, and that Panama retains sovereignty over its territory.
2. Authorize
 - (a) Use of Panamanian license plates on private automobiles of U.S. citizen employees of Canal Zone agencies.
 - (b) Conversion of the postal system in the Canal Zone to an APO system, with Panama handling domestic mail in the Zone.
 - (c) Flying of Panamanian flags on Canal Zone lands and on vessels transiting the Canal.
 - (d) Use by Panama for commercial purposes of

SECRET

SECRET

4

Canal Zone piers and drydocks, as well as land areas and airfields not vital to U.S. defense objectives.

- (e) Joint Panama-U.S. police patrols within the Canal Zone.
- (f) Operation of Panamanian commercial enterprises in the Canal Zone.
- (g) Instruction in Canal Zone schools of the Spanish language and Panamanian culture and history.
- (h) Maximization of employment opportunities in the Canal Zone for Panamanian nationals, on a non-discriminatory basis.
- (i) Maximization of procurement by Canal Zone agencies of Panamanian products.
- (j) Use by the Panamanian government, for educational and similar purposes, of unused buildings and facilities in the Canal Zone.
- (k) Establishment of joint commissions with Panama to study (i) a sea-level Canal and (ii) the resolution of urban problems created by the Zone's presence.

SECRET

SECRET

5

3. Transfer from the military command in Panama -- in keeping with our treaty obligations on Canal neutrality -- all responsibilities not related to defense of the Canal. The rationale for this suggested action is at Tab B.

4. In a further effort to reduce the military image of our Canal presence, we could consider transferring responsibility for administration of the Canal and the Zone from the Department of the Army to the Department of Transportation upon completion of the tour of the present Governor of the Canal. The technical expertise of the Corps of Engineers could be retained through the appointment of an officer from the Corps as deputy to a civilian administrator.

The Committee believes that the selection and timing of the above-described unilateral steps should be closely meshed with the progress, or absence thereof, in the treaty negotiations.

Measures which would require congressional action are:

1. Amendment of the Canal Zone Code to relinquish U.S. criminal and civil jurisdiction within the Zone over Panamanians and third-

SECRET

SECRET

6

country nationals, and over private Panamanian Government activities in the Zone.

2. Transfer of Canal Zone piers and drydocks, and non-essential lands, buildings, airfields and other facilities to Panama.
3. Increase of the annuity payment to Panama.
4. Creating of highway corridors through the Canal Zone at both ends to permit Panamanians to cross from one side to the other.

Kenneth Rush
Chairman
Under Secretaries Committee

SECRET